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TAGS: EFIN ECON KGCN PGOV PREL NI
SUBJECT: PARIS CLUB REDUCES NIGERIA'S DEBT: JUBILATION NOW, CHALLENGES AHEAD

¶1. Summary: The Paris Club group of creditor nations has agreed to reduce Nigeria's debt by about 60 percent. This is seen as a reward for Nigeria's effort at reforming its economy with its home-grown economic reform program. Modalities for implementing the agreement will be negotiated between the Paris Club and the GON at a meeting scheduled for September in Paris. Nigerians on the street, however, are skeptical that the debt deal will confer any benefits on their country in light of rising food prices and Nigeria's inadequate infrastructure. End Summary.

The Deal

¶2. On June 30, the Paris Club agreed to a 60 percent reduction in Nigeria's Paris Club debt of about USD 30 billion. The GON will first pay USD 6 billion in arrears and buy back the remaining debt at 40 cents on the dollar -- roughly USD 9.6 billion -- in two tranches paid six months apart. A meeting between the GON and Paris Club is scheduled for September in Paris to work out the modalities for implementing the agreement.

¶3. Nigeria's total foreign debt is about USD 35 billion. Around 85 percent of the debt is owed to the Paris Club; 8 percent is owed to multilateral financial institutions such as the African Development Bank and the World Bank; and the rest is owed to the London Club of private-sector creditors. Minister of Finance Dr. Ngozi Okonjo-Iweala confirmed that Nigeria will seek opportunities to reduce other debt when and where possible, but her focus had always been to obtain relief from the Paris Club. She also noted that debts owed to multilateral institutions carry lower interest rates and are of longer tenor than debts owed the Paris Club.

A Novel Approach

¶4. The debt treatment agreed on by the PARIS CLUB for Nigeria's debt is a relative novelty. PARIS CLUB debt treatments normally carry "IMF conditionality" as a prerequisite for debt treatment, i.e., the country must enter a IMF-imposed Structural Adjustment Program (SAP). Nigeria's debt deal involves the use of a Policy Support Instrument (PSI), i.e., a home-grown economic stabilization plan with IMF monitoring. Nigeria has been operating under its own economic reform program, the National Economic Empowerment and Development Strategy (NEEDS), which operates without a formal IMF agreement but with quarterly assessment by the IMF. Minister Ngozi stated to the media that this precedent proves developing countries can do things right and earn the respect of developed countries.

A Plus for the Ongoing Economic Reform

¶5. On the evening of June 30, an elated President Obasanjo, on a state broadcast aired by all Nigerian television stations, announced that that the debt deal is a reward for painstaking efforts spanning six years and, most especially, a reward for the GON's effors at reforming the economy via the NEEDS program. He also stated that the debt deal proves cynics wrong, and he invited cynics to join with his government to move the nation forward.

Where Will the Money Come From?

¶6. Later, in a live television program that evening aired by the state-owned National Television Authority featuring Finance Minister Ngozi and Senator Faruk Bello of the opposition All-Nigeria People's Party as invited speakers, Minister Ngozi confirmed that the debt treatment would result in USD 1 billion (about 130 billion naira), which would have been used for debt service, instead being available for use in the domestic economy. Specifically, she mentioned health care, education, and infrastructure. She also stated that the debt reduction does not mean that the

GON will relax and stop carrying out reforms; rather, it will continue the reforms and improve the economy. She confirmed that for the benefits to trickle down, the reforms must continue.

¶7. Senator Faruk Bello, on the other hand, said the deal was not a cause for jubilation, because the GON will have to make huge payments to the Paris Club instead of using the money to improve the economy and infrastructure. Specifically, he mentioned that the USD 6 billion (about 780 billion naira) to settle the arrears would require a supplementary appropriation. Bello said he doubted whether this measure will enjoy smooth sailing through the National Assembly, because President Obasanjo had earlier agreed that "excess revenues" (i.e., oil revenues above a benchmark oil price of USD 25 or USD 27 saved in a special account) would be used to cushion oil price volatility whenever international crude oil prices dip below a certain level, and they would also be used to improve infrastructure.

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Reaction among GON Officials: Break Out the Champagne!
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¶8. At the Finance Ministry, the reaction to the debt deal was unmitigated jubilation. Embassy Economic Specialist, while at the Finance Ministry at 11 a.m. on June 30 working on a commercial advocacy matter, heard a general commotion when the debt buy-back was announced. He encountered Minister Ngozi in the hallway and congratulated her on her accomplishment. She beamed as she shook his hand and told him the GON had secured a 60 percent write-off. The minister then entered a conference room where her minister of state, Esther Nnenadi Usman, was holding a meeting with the IMF quarterly assessment team, and announced the debt deal to all present. The room erupted in cheers and applause. Someone suggested that they bring in champagne and throw a party. The Minister's secretary, Mrs. Fawzia Ahmed, known to Econ Section as a very proper and demure Muslim lady, was so elated that she exclaimed, "I am prepared to take off my veil and drink champagne!"

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Public Reaction: What About Food and Electricity?
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¶9. Because the debt deal was publicly announced at 8 p.m. local time June 30, there was little time for the Nigerian print media to gather "man in the street" reactions. The BBC's Hausa language service broadcast interviews with individual citizens on July 1, and their general reaction was skeptical, focusing on whether the GON would exercise prudence in spending the money that otherwise would have gone for debt service and what effect, if any, the debt deal would have on rising prices of staple foods. Even at the Finance Ministry, Economic Specialist encountered a businessman who did not join in the general jubilation but instead noted that the deal would make no difference unless the GON quickly moved to improve the country's infrastructure.

Comment

¶10. This debt deal is a plus for Nigeria's economic reform and opens a new chapter in the history of the relationship between the Paris Club and debtor nations. Despite Senator Bello's statement, it is unlikely that President Obasanjo will experience much difficulty in getting appropriations from the National Assembly for the debt payments. State governors, however, who are supposed to receive 53 percent of Nigeria's oil revenues, will undoubtedly object to the USD 22 billion in "excess revenues" from petroleum sales being used for debt payments. Meanwhile, President Obasanjo's opponents are liable to interpret the debt deal as donor countries' endorsement of his policies and even as tacit approval of his alleged attempt to extend his presidency beyond his second and final term, which ends in ¶2007.

¶11. Comment cont'd.: Now that the President's "economic dream team" has obtained this valuable prize for him, it remains to be seen whether he will continue the economic reforms and retain the reformers. His public pronouncement that the debt deal vindicates his reforms indicates that he may decide to stay the course. If Obasanjo's economic team members stay in their current positions, the debt deal means that the "dream team" will have less reason to travel incessantly to the capitals of creditor countries and have more time to spend at home working on Nigeria's domestic economy and infrastructure problems.

CAMPBELL